

**NEW INDIA ASSURANCE COMPANY
LIMITED (NIACL)**

**MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL
SERVICES)**

**COMMITTEE ON PUBLIC UNDERTAKINGS
(2021-22)**

SIXTEENTH REPORT

(SEVENTEENTH LOK SABHA)



LOK SABHA SECRETARIAT

NEW DELHI

SIXTEENTH REPORT

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(SEVENTEENTH LOK SABHA)

NEW INDIA ASSURANCE COMPANY LIMITED (NIACL)

**MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)**

[Action taken by the Government on the Observations/Recommendations contained in the Ninth Report of the Committee on Public Undertakings (17th Lok Sabha) titled 'Loss due to Imprudent Underwriting and lack of proper risk assessment (based on Para no. 3.2 of C&AG Report no. 13 of 2019) related to on New India Assurance Company Limited (NIACL)]



***Presented to Lok Sabha on 24 March, 2022
Laid in Rajya Sabha on 24 March, 2022***

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 2022/ Chaitra, 1943(Saka)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS (2021-22)

Shri Santosh Kumar Gangwar - Chairperson

Members *Lok Sabha*

2. Shri Lavu Sri Krishna Devarayalu
3. Dr. Heena Vijaykumar Gavit
4. Shri Chandra Prakash Joshi
5. Smt. K. Kanimozhi
6. Smt. Poonamben Hematbhai Maadam
7. Shri Arjunlal Meena
8. Shri Janardan Mishra
9. Shri Kinjarapu Ram Mohan Naidu
10. Shri Nama Nageswara Rao
11. Shri Arvind Kumar Sharma
12. Shri Ravneet Singh Bittu
13. Shri Sushil Kumar Singh
14. Shri Uday Pratap Singh
15. Shri Ramdas Chandrabhanji Tadas

Rajya Sabha

16. Shri Birendra Prasad Baishya
17. Shri Anil Desai
18. Shri Syed Nasir Hussain
19. Shri Om Prakash Mathur
20. Shri Surendra Singh Nagar
21. Shri K.C. Ramamurthy
22. Shri M. Shanmugam

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------|
| 1. | Shri R.C. Tiwari | - | Additional Secretary |
| 2. | Shri G.C. Prasad | - | Additional Director |
| 3. | Shri Srinivasulu Gunda | - | Director |
| 4. | Smt. Mriganka Achal | - | Deputy Secretary |
| 5. | Shri Haokip Kakai | - | Executive Officer |

*** Shri Santosh Kumar Gangwar appointed as Chairperson, COPU w.e.f. 13 August, 2021 vice Smt Meenakashi Lekhi appointed as Minister on 07 July, 2021.**

INTRODUCTION

I, the Chairperson, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Sixteenth Report on Action Taken by the Government on the Observations/Recommendations contained in the Ninth Report of the Committee on Public Undertakings (17th Lok Sabha) titled “Loss due to imprudent underwriting and Lack of proper risk assessment” [based on Para no. 3.2 of C&AG Report no. 13 of 2019] related to New India Assurance Company Limited.

2. The Ninth Report of the Committee on Public Undertakings (17th Lok Sabha) was presented to Lok Sabha and laid on the Table of Rajya Sabha on 24 March, 2021. The Action taken Replies to all the 5 recommendations contained in the Report were received from the Department of Financial Services, Ministry of Finance on 28 October, 2021.

3. The Committee considered and adopted the draft Report at their sitting held on 16 February, 2022. The Minutes of the sitting are given in Appendix-I.

4. An analysis of the action taken by the Government on the Observations/Recommendations contained in the Ninth Report of the Committee (17th Lok Sabha) is given in Appendix -II.

**New Delhi;
22 March, 2022
01 Chaitra, 1943(S)**

**SANTOSH KUMAR GANGWAR
Chairperson,
Committee on Public Undertakings.**

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the Observations/Recommendations contained in the Ninth Report (Seventeenth Lok Sabha) of the Committee on Public Undertakings (2020-21) titled 'Loss due to Imprudent Underwriting and lack of proper risk assessment [based on para no. 3.2 of C&AG Report no. 13 of 2019] related to New India Assurance Company Limited which was presented to Lok Sabha on the 24th March, 2021.

2. The Report contained five Observations/Recommendations. Action Taken notes have been received from the Government in respect of all the five Observations / Recommendations contained in the Report. These have been categorized as follows:

- (i) Observations / Recommendations which have been accepted by the Government (Chapter II)
Sl. Nos. 1, 2, 3, 4, 5.

(Total 05)
- (ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's replies (Chapter III)
Nil

(Total 0)
- (iii) Observations / Recommendations in respect of which replies of the Government have not been accepted by the Committee (Chapter IV)
Nil

(Total 0)
- (iv) Observations / Recommendations to which the Government have furnished interim replies. (Chapter V)
Nil

(Total 0)

3. The Committee desire the Department of Financial Services, Ministry of Finance to furnish Action Taken Notes/Replies in respect of the Observations/Recommendations contained in Chapter I of the Report within three months of the presentation of the Report to Parliament.

4. The Committee will now deal with the Action Taken by the Government on some of the Observations/Recommendations in succeeding paragraphs.

OVERVIEW

Recommendation Serial No. 1

5. The Committee in their Ninth Report had recommended the following:-

"The present C&AG Audit Para no. 3.2 of Report No. 13 of 2019 (Compliance Audit Observation) examined by the Committee relates to 'Loss due to imprudent underwriting and lack of proper risk assessment' by New India Assurance Company Limited (NIACL). The Committee were informed that the policy in question was governed by Insurance Regulatory Development Authority of India (IRDAI) and was issued by NIACL in June 2013 but was discontinued in November 2015. AppsDaily Solutions Private Limited (insured), a mobile application provider sold mobile applications through its agents at the mobile sales points. It offered free insurance cover for new mobile handsets provided that the customer bought their application within 15 days of purchase of mobile handset. In the policy, the Company collected a total premium of Rs. 33.78 crore against which it settled claims of Rs. 125.10 crore that resulted in loss of Rs. 91.30 crore due to imprudent underwriting without the approval of the competent authorities, lack of proper risk assessment, insurable interest and not carrying out the actuarial valuation of the policy while fixing the premium rate. On the basis of a preliminary enquiry conducted by CVO, NIACL who found that there were lapses in the policy, -the matter was referred to CVC. On the advice of CVC, major penalty proceedings were initiated against the then General Manager (IT), and the then DGM In-charge of Regional Office, Bangalore and four other officers. The Committee before finalising their observations in their report heard the views of the officers from C&AG that conducted the audit, and also the views of the representatives of NIACL and the representatives of the Ministry of Finance (Department of Financial Services). On the basis of the views gathered from all concerned, the Committee is given to understand that insurance is a business of underwriting the risk but the risk has to be a calculated one. It has to be based on actuarial calculations. Yet, the Committee feel that conscious decisions taken complying with all the extant rules/ regulations/ guidelines may not get the desired results all the times and can also go awry at sometimes. The Committee is aware that unlike their counterparts in private companies, officers of public companies owe public accountability of their decisions and are answerable to many agencies of the Government that eventually hampers the entire process of quick decision making. The Committee in their report, has therefore, without casting any aspersions on the integrity or competence of the officers concerned; have rather attempted to address a larger issue of bringing improvement in decision making process, emphasizing more and more on technological systems to have increased level of transparency and accountability for minimizing human errors and risk attached to the insurance business".

6. The Department of Financial Services, Ministry of Finance in their action taken reply have stated as follows:-

"NIACL has already embarked on core technology implementation which will bring transparency data verification setting up the audit trail of all the transactions relating to its business. This includes the issuance of policies through the digital mode and post sales service using the technology enabled facilities like online intimation and registration of claims for Motor claims. In case of health insurance, the technology has been implemented through the TPAs approved by IRDAI".

REVISION OF PREMIUM RATE AND TERMS OF DEPRICIATION IN FAVOUR OF THE INSURED

Recommendation Serial No. 2

7. The Committee, in their Ninth Report, had recommended the following with regard to the revision of premium rate and terms of depreciation in favour of the insured.:-

"The Committee note that New India Assurance Company had initially issued Master Package Policy with an estimated Sum Insured (St) of Rs. 5 crore and a premium of Rs. 6 lakh was collected for the period from 04 June 2013 to 03 June 2014. The policy was cancelled and reissued twice during October, 2013 and February, 2014 after renegotiation of terms in favour of the insured despite increasing trend of Incurred Claim Ratio (ICR). NIACL in their response defended their decision stating that the premium rate for the first Master Policy was quoted keeping in mind the projected targeted turnover of Rs 75 crores. Prevalent market rate at that phase was much lower at 0.80% to 0.90% for such similar risks as against the 1.20% + ST charged by the Company. The Insured sought a new intermediary to solicit the business and for technical reasons (there is no provision to modify/change the intermediary during the currency of Policy) hence the old master policy had to be discontinued and a new one was issued w.e.f. 15 October 2013. NIACL clarified that the initial policy was however not cancelled but only declarations were discontinued in the light of New Policy issued. While reissuing the policy, the turnover assured was increased to Rs. 250/ 300 crore warranting rate adjustment to a little lower rate. Further the claim experience at that point of time was not un-favourable. The new policy that was effective from 01 February 2014 had many changes in terms of pricing viz. an annual turnover of Rs. 1000 crore (Sum Insured) was the minimum requirement under the policy with an initial premium to be paid for a sum insured value of Rs. 100 crore and subsequent increase was to be effected for similar Rs. 100 crore of SI. This assured a minimum premium of Rs. 11 crore of premium with this change whereas none of such similar

policies in the market during that period had generated such volume of premium. The Committee however are not in agreement with the explanation given by NIACL for cancellation of the old Master Policy or reissuance of the new Policy. This is substantiated by the fact that NIACL in another response has stated that the "Master policy issued to AppsDaily as Group Manager Policy defined 'Insured' as - purchaser of mobile handset installed with application manufactured and marketed by AppsDaily solution Pvt. Limited". In the given explanation, if the policy had to be discontinued, it could only have been discontinued if all the purchasers (Insured in this case) of the mobile handset could have sought a new intermediary. The committee do not understand as to why the old master policy was discontinued on AppsDaily seeking a new intermediary when it was not the 'Insured' as defined in the Master Policy. And what was more surprising is the officers of NIACL relenting on the request of AppsDaily for change of intermediary, and discontinuing the old policy to come out with another new policy in favour of AppsDaily. This is admitted by the fact that all the claims were settled in favour of the individual insured as defined above and reimbursed to AppsDaily.

The committee feel that adequate precautions should have been taken in this case. The committee while hoping that sufficient checks and balance must have now been put in place by NIACL on the discretion given to its officers implementing policies of the Company so that it is employed for the goodwill of the Company and not in favour of someone undeserving".

8. The Department of Financial Services, Ministry of Finance, in their Action Taken reply, have stated as follows:-

"Retail products are priced with guidelines on band-width of discounts that can be given based on the declaration and submission of details by each customer. The technology of the company has been enabled to incorporate and identify the pricing of the product based on the underwriting guidelines of Head Office and approved by the Competent Authority.

The approval mechanism for any special dispensation has already been given through various Circulars, stating the authority for giving the approval. The robust internal audit mechanism monitors the implementation of such guidelines/circulars".

Recommendation Serial No. 3

9. With regards to the non-maintenance of proper records, the Committee, in their Ninth Report, had recommended the following to NIACL:-

"The committee also find it rather surprising that the documents/papers pertaining to the revision of premium and the terms of depreciation were not available on record and all decisions related to the proceeding with the premium acceptance and revision of terms of depreciation were taken on oral consent at the Branch, Divisional and Regional office level. The committee feel that such a lackadaisical approach was not only against the system of ensuring transparency in public dealings/ business of the company but it also raises suspicion on the integrity of the persons involved in taking those decisions. The committee is happy to note that in the year 2015 itself, NIACL issued a list of Do's and Don'ts to all those dealing with the mobile insurance, risk assessment and actuarial valuation.

The committee desire that in future records of the company should be maintained properly and major decisions taken on record so that in the event of any lapse, problems can be identified and responsibility fixed on erring officials".

10. The Department of Financial Services, Ministry of Finance, in their Action Taken reply, have stated as follows:-

"As part of preventive vigilance, the sensitization is done by each technical department to follow given set of guidelines. The periodical checks and various disclosure mechanisms like fraud monitoring, enables the Company to identify the major deviations and take suitable disciplinary action.

Instructions are issued to our offices to upload the approval of Competent Authority while issuing Policy or endorsement. The adherence to this is checked by the Internal auditors and if any deviation is found, the same is informed and corrective actions taken at the earliest. Further, circular has been issued to regularize verbal approvals within 7 days.

Further, the Company also has a Maintenance of Record Policy, approved by the Board. This is diligently followed by all our offices, across India".

Recommendation Serial No. 4

11. The Committee, in their Ninth Report, had recommended the following with regard to the expediting the completion of inquiry :-

"The committee note that NIACL did not have any kind of lapse or fraud warning system to alert them that something wrong or unusual was happening in their company. It was only after a complaint was received and on a preliminary enquiry by the CVO, the matter was reported to the CVC and the issue of imprudent underwriting and proper risk management came to light. Even though when the matter came to light in 2016, the officers

concerned were charge sheeted on the last day of their retirement in 2018 and the enquiry began in December 2020. The charges framed against the officers were primarily of two counts. Firstly, whether the officers had the authority to delegate the responsibility or needed to seek the approval of the Board in order to delegate those financial powers of claim settlement and second was regarding the unauthorized settlement of the claims. The Committee find the delay in initiation of enquiry quite unusual. The Committee understand that the insurance business is a business of underwriting and there could have been an error in the calculation of risk and underwriting by the charged officers. But, taking of action on a lapse that was detected not through the Company's own internal mechanism but through a complaint by an outsider and delay in charging the officers and initiation of enquiry only substantiates the involvement of the officers of the Company while they may not be involved. Although the loss to the Company owing to wrong risk assessment was only Rs. 91.32 crore, yet it was public money that could have been saved.

The Committee without casting any aspersions on the integrity or competence of the Officers charged or without delving much on the possibility of any collusion between the app's provider and the insurer; desire expediting the completion of the enquiry so that the officers charged may come out clean if not guilty or may be punished quickly if they had deliberately committed the lapse".

12. The Department of Financial Services, Ministry of Finance, in their Action Taken reply, have stated that the enquiry is in process by the DFS. Examination of the management and defence witnesses is complete and Presenting Officer's report awaited. They have further stated that in light of the report of CVO, NIACL, the matter was examined by DFS and major penalty proceedings were initiated against the officers concerned. Accordingly, charge-sheets were issued to Shri K. Sanath Kumar, Ex-CMD, NICL (then General Manager and Director, NIACL) who retired on 30.4.2018, and Shri C.Narambunathan, Ex General Manager and Director, NIACL (then DGM), who retired on 31.5.2019. Resultantly, the memorandum of charges has been issued to Shri K. Sanath Kumar and Shri C. Narambunathan. Shri D.K. Mehrotra, Ex-Chairman, LIC of India and Shri Ballaswamy, Ex-General Manager, NIACL have been appointed as Inquiry Officer (IO) and Presenting Officer (PO) respectively for conducting composite/common Inquiry for major penalty proceedings against, the charged officers (COs), Shri K. Sanath Kumar, and Shri C.Narambunathan. The proceedings commenced on 14.12.2020 against both the charged officers. Sh.D.K. Mehrotra, IO has informed that the two Charge sheeted employees gave their final statement on 2/9/2021 which brought the hearings to an end. The PO has been asked by the IO to submit his report. IO has been requested to expedite submission of the Inquiry report in a time bound manner considering the extant guidelines of completion of departmental proceedings".

Recommendation Serial No. 5

13. The Committee, in their Ninth Report, had recommended the following with regard to the strengthening of Internal Control Mechanisms:-

"The Committee note that NIACL did not have any concrete internal control mechanisms in place to check/detect the lapse before its occurrence. Firstly, NIACL did not have detailed justification for fixing of initial rates & subsequent revision on record. Secondly, the issue of new policy and it getting renewed without the approval of the competent authorities also went unchecked. Thirdly, the Company did not get the actuarial valuation done which is the basic requirement of any risk management in the non-life insurance business. And lastly, the lapse that should have been detected by the Company's own mechanism was detected through a complaint lodged from outside and a preliminary enquiry conducted by the CVO, NIACL which is an extended arm of the CVC. All these factors resulted in loss of Rs.91.32 crore to the Government exchequer which could have been saved. the Committee feel that had there been sufficient internal control mechanism to induce advance warnings of any unusual activity or frauds could be detected and precious time and public money could be avoided. The committee, therefore, recommend NIACL to build rationale decision making processes and build workable internal warning systems depending on its nature of business & functions to detect various kinds of frauds/ lapses on the part of the Company. This could be done through

(i) use of technology embedment into their systems with suitable measures enabling data protection".

14. The Department of Financial Services, Ministry of Finance, in their Action Taken reply, have stated as follows:-

"The Company has developed a multilayer approach, as under, to ensure the Confidentiality, integrity & Availability of Data in line with IRDAI Guidelines.

- PII (personally identifiable information) data is encrypted while storing.
- Data while transit is encrypted.
- Data Masking/De-Identification of PII done for data released for Testing
- Perimeter security is fortified by deploying Dual OEM firewalls, IPS, WAF etc.
- SIEM is deployed for event co relation and incident reporting.
- Endpoints/Servers are deployed with Antimalware, EDR, HIPS, DLP etc.
- Critical asset access by administrators is managed & monitored by Privilege Identity Management (PIM)solution.
- ISO 27001 Certification of Data Centres is in progress.

The Company is in the process of procuring other advance security solutions such as NBAD (Network behaviour anomaly detection), Data Classification & DLP (data loss prevention), Database activity monitoring, SOAR (security

orchestration, automation & response), UEBA (User & Entity Behaviour Analytics), Packet Forensic etc.

The Company has a Chief Risk Officer & Chief Information Security Officer. They report to the Risk Management Committee & the Board. Further, quarterly updates/issues/concerns on the IT Security & Cyber Security is placed to the Risk Management Committee & the Board, for advice or future course of action, as & when required".

(ii) The Committee in their original Report also stressed that NIACL can maintain a data-base to serve its local interest and engage independent surveyors and analysers to help in rational decision making.

In their reply the NIACL submitted that the Company is having the daily data analysis through Surveyor's tracker, claims tracker, and periodical feedback on the performance of Surveyors with a rating mechanism with vital rating scheme to know the consistency and quality of performance.

(iii) The Committee further stressed that in future, Risk should be managed professionally, and any assessment should be based on actuarial valuation supported by research and scientific methodology".

In response to this the Company in their action taken replies stated that the risks are rated by our Appointed Actuary after the respective line of business owners place the proposed product wordings. The Actuary researches the product experience through analytical tools and derives at a rate which is sustainable and is affordable to the Policyholders".

(iv) It was also recommended that the functioning of the Company and all the decisions taken for the customers should be made transparent and have sufficient mechanism for fixing of accountability.

NIACL, in their action taken replies, stated that the Company follows maker-checker mechanism to have multiple controls for each transaction. The Financial Authority limits up to which transaction can be done by each cadre. The respective technical manual, audit manual, accounting manual apart from the Board Approved Financial Authority identified for each role address to fix accountability.

In the interest of Policyholders and to bring more awareness, the Company uses the customer portal wherein specific mention is made of digital discount as per the guidelines issued by the Ministry. The Company encourages use of customer portal to avail the digital discount apart from the normal price to enable the customer to save 10% of premium. This is as per the digital discount circular of the Ministry.

(v) The Committee had also recommended that online grievance redressal mechanism and other modes of receipt of complaint mechanism of NIACL should be strengthened and every complaint should be taken seriously and personally looked into by a manager/higher level and should be redressed to the satisfaction of the customers/client.

The Company in their replies stated that the Grievance Redressal machinery is three tiered with the Corporate Grievance Cell functioning at the apex level, the Regional Grievance Cell at the Regional Office, and the Branch / Divisional Grievance Cell at the Branch/ Divisional Office. While the principal function of the Branch/ Divisional Grievance Cell is to redress the Grievances, it is expected that the Grievance Cells at the Regional and Corporate level play a more proactive role in not only redressing Grievances, but in minimizing their incidence. These two cells address Grievance not only in terms of their content, but also in terms of their context, to discern circumstances that give rise to repeated Grievances.

There is a full-fledged Customer Care Department in Head Office monitoring grievances registered in all the sources. Grievances registered in CPGRAMS and National Consumer Helpline are closely monitored from Head Office and redressal of grievances in these portals are posted from the Head Office only. Grievances registered in IGMS and CRM are resolved and posted by Divisional / Regional / Head Office. All Regional Offices have a Regional Manager In-charge of Customer care and he / she is supported by a Customer Care Nodal Office in that Regional Office.

The Company has a dedicated e-mail ID customercare.ho@newindia.co.in for getting customer grievances and service related issues and this is monitored by the Head Office. With a view to give special attention to the grievances and service related issues of the senior citizens, the Company has a dedicated e-mail address seniorcitizencare.ho@newindia.co.in which is also monitored by the Head Office.

Grievance Redressal Machinery works at all the operational levels. At Branch / Micro Unit level, the Office In-charge is the Grievance Redressal Officer. At Divisional Office level, the Divisional Manager / Sr. Divisional Manager is the Grievance Redressal Officer. At Regional Office, one officer at Senior level designated as Grievance Redressal Officer will attend to the Grievance. At Head Office level, one officer in the rank of Chief Manager or above will work as the Grievance Redressal Officer.

The Policyholder / the prospect may approach the Policy issuing office first for getting the grievance resolved / reply of the query. If satisfactory resolution is not received, the Policyholder / Prospect may approach Regional Office Customer Care Department and then Head Office Customer Care Department.

In our Grievance Redressal Policy, there is a provision for Regional Redressal Committee at Regional Office level and Corporate Redressal Committee at Head

Office level. The grievances falling within the purview of these committees may be referred to them for decision.

15.1. The Committee while examining C&AG Audit Para No. 3.2 of Report No. 13 of 2019 related to 'Loss due to Imprudent Underwriting and Lack of proper Risk Assessment' by New India Assurance Company Limited (NIACL), had observed in their report that the Company in June 2013 had collected a total premium of Rs. 33.78 crore against which it settled claims of 125.10 crore that resulted in loss of Rs. 91.30 crore to the Company. The loss that could have been avoided was on account of imprudent underwriting, lack of proper risk assessment, insurable interest and the Company not carrying out the actuarial valuation of the policy while fixing the premium rate. Surprisingly, the documents/papers pertaining to the revision of premium and the terms of depreciation were not available on record and all decisions related to the proceeding with the premium acceptance and revision of terms of depreciation were taken on oral consent at the Branch, Divisional and Regional Office level. Shockingly, the lapse that should have been detected by the Company's own mechanism was detected through a complaint lodged from outside and a preliminary enquiry conducted by the CVO, NIACL which is an extended arm of the CVC.

15.2 The Committee without casting any aspersions on the integrity and competence of the Officers concerned had made a number of suggestions in their report for addressing the larger issue of bringing in improvement in decision making process and had emphasised on more and more use of technological systems to achieve increased level of transparency and accountability for minimizing human errors and risk attached to the insurance business. Some of the suggestions included proper management of records of major decisions to identify problems and fix responsibility of erring officials for the lapse, building of rationale decision making processes and workable internet warning systems that will enable to detect various kinds of frauds/lapses on the part of the Company through (i) use of technology embedment into the Company's systems with suitable measures of data protection, (ii) maintaining of database to serve the Company's local interest and engaging of independent surveyors and analyzers to help in rational decision making, (iii) professional assessment of risk supported by research and scientific methodology, (iv) ensuring transparency in decision making process and (v) strengthening of grievance redressal mechanism, etc.

15.3 The Committee are happy to note from the action taken replies that NIACL has acted upon the recommendations of the Committee in right spirit and has embarked on core technology implementation to bring transparency in data verification. It has also enabled its technology to incorporate and identify the pricing of the products based on the underwriting guidelines of Head Office and approved by the Competent Authority. As part of preventive vigilance, NIACL has sensitized its each technical department to follow given set of guidelines and now the Company uploads the approval of Competent Authority while issuing policy

or endorsement. The Company has developed Maintenance of Record Policy which has been approved by its Board, Besides, the Company has developed a multilayer approach to ensure confidentiality, integrity and availability of data in line with IRDAI Guidelines and is now undertaking the daily data analysis through Surveyor's tracker, claims tracker, and periodical feedback on the performance of Surveyor with a rating mechanism including conducting of Actuary researches through analytical tools. In addition, the Company is ensuring an efficient three tiered Grievance Redressal Mechanism with the Corporate Grievance Cell functioning at the apex level. The Committee hope that with all these systems in place, there would be improvement in decision making process ensuring an increased level of transparency and accountability in the functioning of the Company so as the fraud/huge losses can be prevented by the Company in future.

15.4 The Committee however note with dismay that although the fraud/lapse had come to light in 2016, the concerned officers could be charge-sheeted on the last day of their retirement in 2018/2019 and the enquiry could only begin in December, 2020. Eventually, when the hearings in the case has been completed on 02 September 2021, the report is still pending with the Inquiry Officer. The Committee had expected early completion of the enquiry so that the charged Officers could come out clean if not found guilty or could be punished if they are found to have committed the lapse. The Committee would therefore emphasize upon immediate completion of the departmental proceedings against the charge sheeted officers.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

NIACL-OVERVIEW

Recommendation (Sl. No. 1)

The present C&AG Audit Para no. 3.2 of Report No. 13 of 2019 (Compliance Audit Observation) examined by the Committee relates to 'Loss due to imprudent underwriting and lack of proper risk assessment' by New India Assurance Company Limited (NIACL). The Committee were informed that the policy in question was governed by Insurance Regulatory Development Authority of India (IRDAI) and was issued by NIACL in June 2013 but was discontinued in November 2015. AppsDaily Solutions Private Limited (insured), a mobile application provider sold mobile applications through its agents at the mobile sales points. It offered free insurance cover for new mobile handsets provided that the customer bought their application within 15 days of purchase of mobile handset. In the policy, the Company collected a total premium of Rs. 33.78 crore against which it settled claims of Rs. 125.10 crore that resulted in loss of Rs. 91.30 crore due to imprudent underwriting without the approval of the competent authorities, lack of proper risk assessment, insurable interest and not carrying out the actuarial valuation of the policy while fixing the premium rate. On the basis of a preliminary enquiry conducted by CVO, NIACL who found that there were lapses in the policy, -the matter was referred to CVC. On the advice of CVC, major penalty proceedings were initiated against the then General Manager (IT), and the then DGM In-charge of Regional Office, Bangalore and four other officers. The Committee before finalising their observations in their report heard the views of the officers from C&AG that conducted the audit, and also the views of the representatives of NIACL and the representatives of the Ministry of Finance (Department of Financial Services). On the basis of the views gathered from all concerned, the Committee is given to understand that insurance is a business of underwriting the risk but the risk has to be a calculated one. It has to be based on actuarial calculations. Yet, the Committee feel that conscious decisions taken complying with all the extant rules/ regulations/ guidelines may not get the desired results all the times and can also go awry at sometimes. The Committee is aware that unlike their counterparts in private companies, officers of public companies owe public accountability of their decisions and are answerable to many agencies of the Government that eventually hampers the entire process of quick decision making. The Committee in their report, has therefore, without casting any aspersions on the integrity or competence of the officers concerned; have rather attempted to address a larger issue of bringing improvement in decision making process, emphasizing more and more on technological systems to have increased level of transparency and accountability for minimizing human errors and risk attached to the insurance business.

Reply of the Government

NIACL has already embarked on core technology implementation which will bring transparency data verification setting up the audit trail of all the transactions relating to its business. This includes the issuance of policies through the digital mode and post sales service using the technology enabled facilities like online intimation and registration of claims for Motor claims. In case of health insurance, the technology has been implemented through the TPAs approved by IRDAI.

[Ministry of Finance (Department of Financial Services)]
(H-12013/01/2021-Ins. II Dated 28.10.2021)

REVISION OF PREMIUM RATE AND TERMS OF DEPRICIATION IN FAVOUR OF THE INSURED

Recommendation (Sl. No. 2)

2. The Committee note that New India Assurance Company had initially issued Master Package Policy with an estimated Sum Insured (St) of Rs. 5 crore and a premium of Rs. 6 lakh was collected for the period from 04 June 2013 to 03 June 2014. The policy was cancelled and reissued twice during October, 2013 and February, 2014 after renegotiation of terms in favour of the insured despite increasing trend of Incurred Claim Ratio (ICR). NIAGL in their response defended their decision stating that the premium rate for the first Master Policy was quoted keeping in mind the projected targeted turnover. Prevalent market rate at that phase was much lower at 0.80% to 0.90% for such similar risks as against the 1.20% + ST charged by the Company. The Insured sought a new intermediary to solicit the business and for technical reasons (there is no provision to modify/change the intermediary during the currency of Policy) hence the old master policy had to be discontinued and a new one was issued w.e.f. 15 October 2013. NIACL clarified that the initial policy was however not cancelled but only declarations were discontinued in the light of New Policy issued. While reissuing the policy, the turnover assured was increased to Rs. 250/ 300 crore warranting rate adjustment to a little lower rate. Further the claim experience at that point of time was not un-favourable. The new policy that was effective from 01 February 2014 had many changes in terms of pricing viz. an annual turnover of Rs. 1000 crore (Sum Insured) was the minimum requirement under the policy with an initial premium to be paid for a sum insured value of Rs. 100 crore and subsequent increase was to be effected for similar Rs. 100 crore of SI. This assured a minimum premium of Rs. 11 crore whereas none of such similar policies in the market during that period had generated such volume of premium. The Committee however are not in agreement with the explanation given by NIACL for cancellation of the old Master Policy or reissuance of the new Policy. This is substantiated by the fact that NIACL in another response has stated that the "Master policy issued to AppsDaily as Group Manager Policy defined 'Insured' as - purchaser of mobile handset installed with application manufactured and marketed by AppsDaily solution Pvt. Limited". In the given explanation, if the policy had to be discontinued, it could only have been discontinued if all the purchasers (Insured in this case) of the

mobile handset could have sought a new intermediary. The committee do not understand as to why the old master policy was discontinued on AppsDaily seeking a new intermediary when it was not the 'Insured' as defined in the Master Policy. And what was more surprising is the officers of NIACL relenting on the request of AppsDaily for change of intermediary, and discontinuing the old policy to come out with another new policy in favour of AppsDaily. This is admitted by the fact that all the claims were settled in favour of the individual insured as defined above and reimbursed to AppsDaily. The committee feel that adequate precautions should have been taken in this case. The committee while hoping that sufficient checks and balance must have now been put in place by NIACL on the discretion given to its officers implementing policies of the Company so that it is employed for the goodwill of the Company and not in favour of someone undeserving:

Reply of the Government

Retail products are priced with guidelines on band-width of discounts that can be given based on the declaration and submission of details by each customer. The technology of the company has been enabled to incorporate and identify the pricing of the product based on the underwriting guidelines of Head Office and approved by the Competent Authority.

The approval mechanism for any special dispensation has already been given through various Circulars, stating the authority for giving the approval. The robust internal audit mechanism monitors the implementation of such guidelines/circulars.

[Ministry of Finance (Department of Financial Services)]
(H-12013/01/2021-Ins. II Dated 28.10.2021)

NON-MAINTANCE OF PROPER RECORDS

Recommendation (Sl. No. 3)

3. The committee also find it rather surprising that the documents/papers pertaining to the revision of premium and the terms of depreciation were not available on record and all decisions related to the proceeding with the premium acceptance and revision of terms of depreciation were taken on oral consent at the Branch, Divisional and Regional office level. The committee feel that such a lackadaisical approach was not only against the system of ensuring transparency in public dealings/ business of the company but it also raises suspicion on the integrity of the persons involved in taking those decisions. The committee is happy to note that in the year 2015 itself, NIACL issued a list of Do's and Don'ts to all those dealing with the mobile insurance, risk assessment and actuarial valuation.

The committee desire that in future records of the company should be maintained properly and major decisions taken on record so that in the event of any lapse, problems can be identified and responsibility fixed on erring officials.

Reply of the Government

As part of preventive vigilance, the sensitization is done by each technical department to follow given set of guidelines. The periodical checks and various disclosure mechanisms like fraud monitoring, enables the Company to identify the major deviations and take suitable disciplinary action.

Instructions are issued to our offices to upload the approval of Competent Authority while issuing Policy or endorsement. The adherence to this is checked by the Internal auditors and if any deviation is found, the same is informed and corrective actions taken at the earliest. Further, circular has been issued to regularize verbal approvals within 7 days.

Further, the Company also has a Maintenance of Record Policy, approved by the Board. This is diligently followed by all our offices, across India.

[Ministry of Finance (Department of Financial Services)]
(H-12013/01/2021-Ins. II Dated 28.10.2021)

EXPEDITING THE COMPLETION OF INQUIRY

Recommendation (Sl. No. 4)

4. The committee note that NIACL did not have any kind of lapse or fraud warning system to alert them that something wrong or unusual was happening in their company. It was only after a complaint was received and on a preliminary enquiry by the CVO, the matter was reported to the CVC and the issue of imprudent underwriting and proper risk management came to light. Even though when the matter came to light in 2016, the officers concerned were charge sheeted on the last day of their retirement in 2018 and the enquiry began in December 2020. The charges framed against the officers were primarily of two counts. Firstly, whether the officers had the authority to delegate the responsibility or needed to seek the approval of the Board in order to delegate those financial powers of claim settlement and second was regarding the unauthorized settlement of the claims. The Committee find the delay in initiation of enquiry quite unusual. The Committee understand that the insurance business is a business of underwriting and there could have been an error in the calculation of risk and underwriting by the charged officers. But, taking of action on a lapse that was detected not through the Company's own internal mechanism but through a complaint by an outsider and delay in charging the officers and initiation of enquiry only substantiates the involvement of the officers of the Company while they may not be involved. Although the loss to the Company owing to wrong risk assessment was only Rs. 91.32 crore, yet it was public money that could have been saved.

The Committee without casting any aspersions on the integrity or competence of the Officers charged or without delving much on the possibility of any collusion between the app's provider and the insurer; desire expediting the completion of the enquiry so that

the officers charged may come out clean if not guilty or may be punished quickly if they had deliberately committed the lapse:

Reply of the Government

The enquiry is in process by the DFS. We understand that the examining of the management and defence witnesses is complete and Presenting Officer's report awaited.

Reply of Department of Financial Services

- In light of the report of CVO, NIACL, the matter was examined by DFS and major penalty proceedings were initiated against the officers concerned.
- Accordingly, charge-sheets were issued to Shri K.Sanath Kumar, Ex-CMD, NICL (then General Manager and Director, NIACL) who retired on 30.4.2018, and Shri C.Narambunathan, Ex General Manager and Director, NIACL (then DGM), who retired on 31.5.2019.
- Resultantly, the memorandum of charges has been issued to Shri K. Sanath Kumar and Shri C. Narambunathan.
- Shri D.K. Mehrotra, Ex-Chairman, LIC of India and Shri Ballaswamy, Ex-General Manager, NIACL have been appointed as Inquiry Officer (IO) and Presenting Officer (PO) respectively for conducting composite/common Inquiry for major penalty proceedings against, the charged officers (COs), Shri K. Sanath Kumar, and Shri C.Narambunathan.
- The proceedings commenced on 14.12.2020 against both the charged officers.
- Sh.D.K. Mehrotra, IO has informed that the two Charge sheeted employees gave their final statement on 2/9/2021 which brought the hearings to an end. The PO has been asked by the IO to submit his report.
- IO has been requested to expedite submission of the Inquiry report in a time bound manner considering the extant guidelines of completion of departmental proceedings.

[Ministry of Finance (Department of Financial Services)]
(H-12013/01/2021-Ins. II Dated 28.10.2021)

STRENGTHENING OF INTERNAL CONTROL MECHANISMS

Recommendation (Sl. No. 5)

5. The Committee note that NIACL did not have any concrete internal control mechanisms in place to check/detect the lapse before its occurrence. Firstly, NIACL did not have detailed justification for fixing of initial rates & subsequent revision on record. Secondly, the issue of new policy and it getting renewed without the approval of the competent authorities also went unchecked. Thirdly, the Company did not get the actuarial valuation done which is the basic requirement of any risk management in the insurance business. And lastly, the lapse that should have been detected by the Company's own mechanism was detected through a complaint lodged from outside and

a preliminary enquiry conducted by the CVO, NIACL which is an extended arm of the CVC. All these factors resulted in loss of Rs.91.32 crore to the Government exchequer which could have been saved. the Committee feel that had there been sufficient internal control mechanism to induce advance warnings of any unusual activity or frauds could be detected and precious time and public money could be avoided. The committee, therefore, recommend NIACL to build rationale decision making processes and build workable internal warning systems depending on its nature of business & functions to detect various kinds of frauds/ lapses on the part of the Company. This could be done through

(i) use of technology embedment into their systems with suitable measures enabling data protection.

Reply of the NIACL

The Company has developed a multilayer approach, as under, to ensure the Confidentiality, integrity & Availability of Data in line with IRDAI Guidelines.

- PII (personally identifiable information) data is encrypted while storing.
- Data while transit is encrypted.
- Data Masking/De-Identification of PII done for data released for Testing
- Perimeter security is fortified by deploying Dual OEM firewalls, IPS, WAF etc.
- SIEM is deployed for event co relation and incident reporting.
- Endpoints/Servers are deployed with Antimalware, EDR, HIPS, DLP etc.
- Critical asset access by administrators is managed & monitored by Privilege Identity Management (PIM)solution.
- ISO 27001 Certification of Data Centres is in progress.

The Company is in the process of procuring other advance security solutions such as NBAD (Network behaviour anomaly detection), Data Classification & DLP (data loss prevention), Database activity monitoring, SOAR (security orchestration, automation & response), UEBA (User & Entity Behaviour Analytics), Packet Forensic etc.

The Company has a Chief Risk Officer & Chief Information Security Officer. They report to the Risk Management Committee & the Board. Further, quarterly updates/issues/concerns on the IT Security & Cyber Security is placed to the Risk Management Committee & the Board, for advice or future course of action, as & when required.

(ii) NIACL can maintain a data-base to serve its local interest and engage independent surveyors and analysers to help in rational decision making.

Reply of the NIACL

The Company is having the daily data analysis through Surveyor's tracker, claims tracker, and periodical feedback on the performance of Surveyors with a rating mechanism with vital rating scheme to know the consistency and quality of performance.

(iii) In future, Risk should be managed professionally, and any assessment should be based on actuarial valuation supported by research and scientific methodology.

Reply of the NIACL

The risks are rated by our Appointed Actuary after the respective line of business owners place the proposed product wordings. The Actuary researches the product experience through analytical tools and derives at a rate which is sustainable and is affordable to the Policyholders.

(iv) The functioning of the Company and all the decisions taken for the customers should be made transparent and have sufficient mechanism for fixing of accountability.

Reply of the NIACL

Company follows maker-checker mechanism to have multiple controls for each transaction. The Financial Authority limits up to which transaction can be done by each cadre. The respective technical manual, audit manual, accounting manual apart from the Board Approved Financial Authority identified for each role address to fix accountability.

In the interest of Policyholders and to bring more awareness, the Company uses the customer portal wherein specific mention is made of digital discount as per the guidelines issued by the Ministry. The Company encourages use of customer portal to avail the digital discount apart from the normal price to enable the customer to save 10% of premium. This is as per the digital discount circular of the Ministry.

(v) Online grievance redressal mechanism and other modes of receipt of complaint mechanism of NIACL should be strengthened and every complaint should be taken seriously and personally looked into by a manager/higher level and should be redressed to the satisfaction of the customers/client.

Reply of the NIACL

The Grievance Redressal machinery is three tiered with the Corporate Grievance Cell functioning at the apex level, the Regional Grievance Cell at the Regional Office, and the Branch / Divisional Grievance Cell at the Branch/ Divisional Office. While the principal function of the Branch/ Divisional Grievance Cell is to redress the Grievances, it is expected that the Grievance Cells at the Regional and Corporate level play a more proactive role in not only redressing Grievances, but in minimizing their incidence. These two cells address Grievance not only in terms of their content, but also in terms of their context, to discern circumstances that give rise to repeated Grievances.

There is a full-fledged Customer Care Department in Head Office monitoring grievances registered in all the sources. Grievances registered in CPGRAMS and National Consumer Helpline are closely monitored from Head Office and redressal of grievances in these portals are posted from the Head Office only. Grievances registered in IGMS

and CRM are resolved and posted by Divisional / Regional / Head Office. All Regional Offices have a Regional Manager In-charge of Customer care and he / she is supported by a Customer Care Nodal Office in that Regional Office.

The Company has a dedicated e-mail ID customercare.ho@newindia.co.in for getting customer grievances and service related issues and this is monitored by the Head Office. With a view to give special attention to the grievances and service related issues of the senior citizens, the Company has a dedicated e-mail address seniorcitizencare.ho@newindia.co.in which is also monitored by the Head Office.

Escalation of grievance:

Grievance Redressal Machinery works at all the operational levels. At Branch / Micro Unit level, the Office In-charge is the Grievance Redressal Officer. At Divisional Office level, the Divisional Manager / Sr. Divisional Manager is the Grievance Redressal Officer. At Regional Office, one officer at Senior level designated as Grievance Redressal Officer will attend to the Grievance. At Head Office level, one officer in the rank of Chief Manager or above will work as the Grievance Redressal Officer.

The Policyholder / the prospect may approach the Policy issuing office first for getting the grievance resolved / reply of the query. If satisfactory resolution is not received, the Policyholder / Prospect may approach Regional Office Customer Care Department and then Head Office Customer Care Department.

In our Grievance Redressal Policy, there is a provision for Regional Redressal Committee at Regional Office level and Corporate Redressal Committee at Head Office level. The grievances falling within the purview of these committees may be referred to them for decision.

[Ministry of Finance (Department of Financial Services)]
(H-12013/01/2021-Ins. II Dated 28.10.2021)

CHAPTER III

**OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE
TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES**

- Nil -

CHAPTER IV

**OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE
GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH
REQUIRE REITERATION**

- Nil -

CHAPTER V

OBSERVATIONS/RECOMMENDATIONS TO WHICH THE GOVERNMENT HAS FURNISHED INTERIM REPLIES

-NIL-

New Delhi;
22 March, 2022
01 Chaitra, 1943(S)

SANTOSH KUMAR GANGWAR
Chairperson,
Committee on Public Undertakings

APPENDIX-III

MINUTES OF THE TWENTY- THIRD SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2021-2022)

The Committee sat on Wednesday, the 16th February, 2022 from 1500 hrs. to 1630 hrs. in Committee room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Santosh Kumar Gangwar - Chairperson

MEMBERS

Lok Sabha

- 2. Shri Arjunlal Meena**
- 3. Shri Nama Nageswara Rao**
- 4. Shri Sushil Kumar Singh**

Rajya Sabha

- 5. Shri Anil Desai**
- 6. Shri Syed Nasir Hussain**
- 7. Shri Om Prakash Mathur**
- 8. Shri K.C. Ramamurthy**

SECRETARIAT

- | | | |
|----------------------------------|----------|-----------------------------|
| 1. Shri R.C. Tiwari | - | Additional Secretary |
| 2. Shri Srinivasulu Gunda | - | Director |
| 3. Shri G.C. Prasad | - | Additional Director |
| 4. Mriganka Achal | - | Deputy Secretary |

2. At the outset, the Hon'ble Chairperson welcomed the Members to the sitting of the Committee convened for consideration and adoption of the three draft Action Taken Reports and to have briefing on the subject 'Industrial Finance Corporation of India (IFCI) Limited' in connection with its comprehensive examination. The three draft action taken reports pertained to :-

(i) ****

(ii) **** **** ****

(iii) Action Taken by the Government on the Observations/Recommendations of the Committee contained in the Ninth Report of the Committee on Public Undertakings (17th Lok Sabha) titled 'Loss due to Imprudent underwriting and lack of proper risk assessment (based on Para no. 3.2 of C&AG Report no. 13 of 2019) related to on New India Assurance Company Limited (NIACL).

3. The Committee considered these draft action taken reports and adopted it without any changes/ modifications. The Committee thereafter authorized the Chairperson to finalize the report on the basis of factual verification by the concerned Ministry/Department and consider for presenting the reports to Parliament in the coming session.

4. The Committee Secretariat then made a Power-point Presentation on the major issues related to the agenda of the sitting.

(The representatives of IFCI Limited were then called in)

5.	****	****	****
6.	****	****	****
7.	****	****	****
8.	****	****	****
9.	****	****	****

The Committee then adjourned.

(A verbatim record of the proceedings has been kept separately.)

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APPENDIX - II

(Vide para 4 of the Introduction)

Analysis of the Action Taken by Government on the Observations/ Recommendations contained in the Ninth Report of the Committee on Public Undertakings (2020-21) on New India Assurance Company Limited (NIACL)

I	Total number of recommendations		5
II	Observations/Recommendations that have been accepted by the Government [vide Recommendations [vide Recommendations at Sl. Nos. 1, 2, 3, 4 and 5]	Total	- 05
		Percentage	- 100
III	Observations/Recommendation which the Committee do not desire to pursue in view of Government's replies.	Total	- NIL
		Percentage	- NA
IV	Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and need reiteration.	Total	- Nil
		Percentage	- N.A.
V	Observations/Recommendations to which the Government has furnished interim replies.	Total	- Nil
		Percentage	- N.A.